



Federal Communications
Commission

October 23, 2008

You Rule.

OVERVIEW

- Universal Service Fund Reform
 - USF reform predicated on a numbers-based contribution methodology would disproportionately harm lower-income, lower-usage prepaid wireless customers.
 - The FCC must take into account the unique nature of prepaid wireless services and adopt an alternative contribution methodology for prepaid wireless customers.
 - Alternative approaches for USF contributions for customers of prepaid wireless carriers have received broad political and industry support.
- Eligible Telecommunications Carrier Requests
 - Virgin Mobile requests that the FCC expeditiously approve its pending petition for forbearance and petitions for designation as an eligible telecommunications carrier.
 - Expedited FCC approval will enable the company to finalize its business and marketing plans and commence its Lifeline offering as soon as possible.



VIRGIN MOBILE USA

- Began operation as a 50/50 joint venture of Sprint Nextel and Sir Richard Branson's Virgin Group in July 2002.
- Pioneered the mobile virtual network operator model in the United States.
- Since commencing service, Virgin Mobile has become the seventh largest wireless carrier in the United States with approximately 5.2 million customers—the most of any U.S. MVNO.
 - Many Virgin Mobile customers are from lower-income households that previously lacked access to an attractive wireless service.
 - 35% of Virgin Mobile's customers have annual household incomes below \$35,000.
 - Many Virgin Mobile customers are lower-usage customers.
 - Average Virgin Mobile customer ARPU = approx. \$20/month.
 - Average postpaid customer ARPU = approx. \$50/month.



SIGNIFICANT ACHIEVEMENTS

- Recognized by J.D. Power and Forrester for outstanding service, customer satisfaction and customer care.
 - In both 2006 and 2007, Virgin Mobile was the sole recipient of the J.D. Power and Associates award for Wireless Prepaid Customer Satisfaction.
 - 92% customer satisfaction rate.
 - 91% of customers would recommend service to a friend.
 - PC Magazine awarded Virgin Mobile its Readers Choice award in 2006 and 2007.
- Over 40,000 distribution points and 140,000 Top-Up Card locations, including Wal-Mart, Target, K-Mart, Best Buy and Radio Shack.
 - Received Silver Circle SPARC award as top supplier of wireless products.
 - Named Wal-Mart Supplier of the Year.



PREPAID SERVICES PROVIDES SIGNIFICANT COMPETITION

- Prepaid providers and service plans are a critical source of increasing competition and growth in the wireless market, especially for customers who have not previously accessed wireless service.
- Many analysts believe that a significant portion of the future growth in the wireless market will come from prepaid services.
 - The Yankee Group has estimated that the number of prepaid wireless customers in the U.S. will grow to approximately 53 million by 2011.
 - Each of the four major wireless providers offer prepaid service plans.
 - The FCC, itself, noted in its Eleventh Annual Report on the status of competition in the wireless market that the continued increases in wireless subscriber growth can be attributed to “innovative service models such as prepaid...plans....”



USF REFORM

- A numbers-based USF contribution methodology would impose significant hardship on lower-income, lower-usage prepaid wireless customers.
- A numbers-based USF approach shifts a disproportionate burden of USF fees onto lower-usage customers.
 - Avg. postpaid subscriber with \$50 ARPU: \$1 USF fee/month = 2% of monthly bill.
 - Avg. prepaid customer with \$20 ARPU: \$1 USF fee/month = 5% of monthly bill.
- A \$1 USF fee also would more than triple Virgin Mobile's average monthly USF cost per prepaid customer.



USF REFORM - ADJUSTMENT FOR PREPAID CUSTOMERS

- Virgin Mobile recommends one of two approaches to eliminate the regressive nature of any USF reform proposals for prepaid customers:
 - “By the Minute” Proposal:
 - USF contributions based on the minutes that a prepaid wireless customer actually uses, multiplied by a predetermined per-minute contribution fee based on average wireless customer usage.
 - Supported by AT&T, Verizon Wireless and TracFone Wireless; minimal opposition.
 - “Active Prepaid Handset” Proposal:
 - USF contributions assessed per number, but a reduced numbers-based fee for prepaid wireless users with less than \$25 in monthly voice revenue (one-half the postpaid average).
 - In addition, Virgin Mobile recommends an exemption from USF obligations for those customers who spend less than \$5/month.



USF REFORM - ADJUSTMENT FOR PREPAID CUSTOMERS (cont'd)

- Alternative approaches for USF contribution obligations of prepaid carriers have garnered broad political and industry support.
 - USF reform legislation, S.101 and S.711, requires the FCC to adjust the USF contribution mechanism for low-volume customers.
 - The wireless industry, including CTIA, Verizon Wireless and AT&T Mobility support an exemption for prepaid wireless customers.
- Recognizing the harms that flat fees present for lower-income customers, many states have adopted alternative approaches for payment of E911 fees by prepaid wireless carriers.



VIRGIN MOBILE LIFELINE - BACKGROUND

- Virgin Mobile filed a Petition for Forbearance from enforcement of the Section 214(e)(1)(A) facilities requirement in December 2007.
 - No substantive opposition.
- Petitions for ETC designation pending:
 - New York (December 2007); North Carolina (April 2008); Pennsylvania (December 2007); Tennessee: (April 2008); Virginia (December 2007).
 - All pleading cycles have concluded.
- Virgin Mobile's ETC requests are identical to the requests of TracFone, which the FCC approved in April 2008.
 - Virgin Mobile will abide by all of the conditions placed on TracFone for approval of forbearance and ETC designation requests.



VIRGIN MOBILE LIFELINE – ETC DESIGNATION

- Virgin Mobile's participation in the Lifeline program would serve the interests of its lower-income customers—the same customers the USF program was designed to benefit.
- Virgin Mobile's prepaid service offerings are ideally suited to serve these customers with reliable and affordable service.
- ETC designation would drive wireless penetration rates higher in this underserved customer segment.
- The affordability of wireless services has become a challenge for many lower-income customers.
 - In a deteriorating economy, many existing wireless customers have to forego wireless services because they can no longer afford them.
 - Major postpaid carriers tightening credit standards, squeezing out lower-income customers.



VIRGIN MOBILE LIFELINE – ETC DESIGNATION (cont'd)

- Designation of ETC status to Virgin Mobile should have minimal impact on USF expenditures and would not infringe on the FCC's decision to cap high-cost support.
- Unlike high-cost support, designation of multiple ETCs for Lifeline purposes has no adverse impact on Lifeline funding since Lifeline support is customer-specific.
- While reform efforts have properly focused on high-cost funding mechanisms, Virgin Mobile believes that the FCC should dedicate additional effort to fostering increased access by lower-income customers to telecommunications services, especially wireless services.



VIRGIN MOBILE LIFELINE - OFFERING

- Minutes: 120 anytime minutes.
 - \$0.20/additional minute.
 - \$0.10/text message.
- Price: Free to eligible customers.
- Extras: Free voice mail, call waiting, etc.
- Handset: Standard retail rates; free refurbished handset.
- Long-Term Contract: None.



VIRGIN MOBILE LIFELINE - OUTREACH

- Virgin Mobile will implement the FCC's guidelines for outreach efforts to increase awareness of its Lifeline offer:
 - Social Service Agencies:
 - Target locations where consumers receive benefits that make them eligible for Lifeline.
 - Coordinate efforts with public and private assistance organizations.
 - Develop outreach efforts for non-English speaking consumers.
 - Retail:
 - Increase awareness of Lifeline offer at existing third-party retail outlets through brochures, starter guides, etc.
 - Existing Customers:
 - Raise customer awareness of Lifeline offer through targeted marketing (e.g., SMS, email).
 - Re*Generation Partners:
 - Use charitable partners to distribute handsets and increase awareness.



SUMMARY

- USF Reform

- USF reform must be fair, equitable and competitively neutral for all contributors to preserve the viability of the program.
- Any USF reform centered on a numbers-based contribution methodology would pose significant hardships for lower income, lower-usage prepaid wireless customers.
- The need to account for the unique nature of prepaid wireless services and adopt an alternative contribution methodology for prepaid wireless customers is without opposition.

- ETC Requests

- Rapid grant of Virgin Mobile's pending ETC requests will enable the company to quickly commence Lifeline service, helping to bridge the affordability gap to wireless services for many lower-income customers.

